

2003

Financial Report

“4th Quarter”

INTRODUCTION

We've worked together for the past few years striving to make a difference, 2003 was no exception. Working hard to lay the foundation on which the utilities can grow and better serve the community, believing that most in the community agree that there is a need for water and sewer service and infrastructure improvements. However, we're not the first to build here, and those who came before us have struck a blow to the mutual trust within the community and therefore the ability for much of the community to accept our work as being in the best interest of the whole community, and not as having a personal or political agenda serving the needs of the few.

Our intentions will continue to be to serve our community with the community's best interest at the heart of what we do. And, although there are those who would attempt to put an end to our work - even though I do not know nor understand why - by comparison, I would speculate that most of those who cast stones do not have the community's best interest at the heart of what they do. However, we will continue to share our ideas and plans through scheduled meetings and community inquiries in a productive and progressive manner as we have in our prior work. Always open to ideas to improve our efforts and to correct problems as they exist. And obviously, for those of a mind to comment on our work effort and direction, the problems are easy to identify, it's the solutions that take the hard work and commitment. And now, with that said, we'll begin our journey into 2004 by taking a look at the 2003 financial charts and summaries.

As documented before in quarterly reports, the utility has lost, on average, eighty-nine (89) customers during 2003. It appears as though most of the customers were lost during the final quarter of 2002 and the first quarter of 2003. The customer trend appears to be fairly stable at its current level, although it will fluctuate by season. This represents a revenue loss equivalent of eighty-nine customers not paying for utility service for all twelve months of 2003 that has severely impacted the utilities ability to generate revenues sufficient to meet all of its financial obligations. This same effect will be felt moving into 2004 and beyond unless we see a significant increase in the number of customers during the upcoming months; I wouldn't recommend reacting overly optimistic to this concept any time soon. The utilities staff has worked hard to minimize operating costs and to eliminate all but essential capital and improvement purchases, however, this is a band-aid approach to healing a serious financial wound and is not a permanent solution. A customer comparison chart showing customer counts from 2001 thru 2003 is presented at the top of the next page.

CUSTOMER COMPARISON							
2001 THRU 2003							
MONTH	NUMBER OF CUSTOMERS BY YEAR			2001/2002 COMPARED		2002/2003 COMPARED	
	2001	2002	2003	Count Difference	Percent Difference	Count Difference	Percent Difference
January	1502	1548	1435	46	3%	113	-8%
February	1692	1507	1404	185	-12%	103	-7%
March	1499	1503	1461	4	0%	42	-3%
April	1527	1539	1454	12	1%	85	-6%
May	1583	1568	1500	15	-1%	68	-5%
June	1597	1606	1513	9	1%	93	-6%
July	1601	1602	1524	1	0%	78	-5%
August	1611	1604	1506	7	0%	98	-7%
September	1620	1611	1487	9	-1%	124	-8%
October	1588	1570	1475	18	-1%	95	-6%
November	1557	1539	1421	18	-1%	118	-8%
December	1484	1464	1418	20	-1%	46	-3%
Average	1572	1555	1467	17	-1%	89	-6%
Minimum	1484	1464	1404	185	-12%	124	-8%
Maximum	1692	1611	1524	46	3%	42	-3%

The 2003 financial report for the fourth-quarter will first, review costs associated with essential planned capital purchases that were completed or under review for completion by years end, and then, typically, we would have reviewed the status and cost of improvement projects that were recently completed, however, there were no improvement projects planned for the fourth quarter due to financial constraints, so; second, it will identify and explain excess spending for each budget line item by referencing updated information and forecasts in the documents following the narrative section of this report; and lastly, this report will provide a summary of the provided information and analysis to assist in guiding financial decision making into the 2004 fiscal year. You will find a brief status and actual/estimated cost of these projects outlined below:

CAPITAL PURCHASES

□ **Planned (Completed):**

- *1,000-Gallon Tank w/Trailer (Campbell's Petroleum):\$1,100
- *Billing Software (\$872.08/mo. payments began in October):.....\$2,616
- Total (Completed):.....\$3,716

□ **Planned (Incomplete):**

- **Touch-Read Wand for Meter Reading (Non-Essential):\$3,000

IMPROVEMENT PROJECTS

- **Planned (Completed):**
 - **(Non-Essential for 2003):**\$0.00

 - **Planned (Incomplete):**
 - *There are no planned Improvement Projects for 2003:\$0.00
- *Actual **Estimated

The Capital Purchases and Improvement Projects planned for completion in the final quarter of 2003 were completed as outlined above. Only essential capital or improvement purchases will be completed during 2004; there are no essential Capital Purchases or Improvement Projects allotted for in the 2004 budgets. The water/sewer costs breakdown of all essential Capital Purchases that are currently planned for completion in CY 2004 is as follows:

Water Utility Projects (*Incomplete*) = \$0.00

Sewer Utility Projects (*Incomplete*) = \$0.00

The 4th Quarter report is a summation of 2003 showing the revenues and expenses in a variety of charts. With that understanding, it becomes important to review the “2003 Year-end Summary” reports in order to establish specific goals for 2004, and then, to identify how to best accomplish our projected goals while insuring that we are able to stay within the financial constraints associated with the lost revenues. For this purpose, each line of the planning docket provides a percentage cell that shows how much of the forecasted budget was spent, up to and including the fourth quarter of 2003. You will notice that each budget line item is *below*, *at*, or *above* the one-hundred-percent mark of its forecasted budget amount. A brief explanation for those revenue line items that have fallen short of their fourth-quarter forecast (<100%; including availabilities) and expense line items that have exceeded their fourth-quarter forecast by more than ten percent (>110%) is provided below:

WATER BUDGET 2003; Planning Docket (Year-end Summary)

REVENUES

- **Availability Fees:** 82% of budget forecast. (Customers are still not paying their Availability Fees)

EXPENSES

- **632 Cont. Services - Acct:** 176% of budget; initial budget set at \$2,000. 4th Quarter costs were associated solely to paying for the State Audit. (This line item should include funds to pay for a rate study.)

- ❑ **636 Cont. Services - Other:** 225% of budget; initial budget set at \$6,600. 4th Quarter costs were associated with Greentree software purchase (down payment), payments, and associated computer networking costs. (Not typically an annual expense.)
- ❑ **656 Insurance-Vehicle:** 130% of budget; initial budget set at \$500. (This line item was increased for the 2004 budget to allow for increased Vehicle Insurance expenses.)
- ❑ **657 Insurance-General Liability:** 125% of budget; initial budget set at \$3,900. (This line item was increased for the 2004 budget to allow for increased General Liability Insurance expenses.)
- ❑ **658 Insurance-Worker's Comp:** 145% of budget; initial budget set at \$800. (This line item was increased for the 2004 budget to allow for increased Worker's Compensation Insurance expenses.)
- ❑ **675 Misc. Expense:** 349% of budget; initial budget set at \$2,500. 4th Quarter expenses are normal and associated with this category. (This line item was increased for the 2004 budget to allow for additional Miscellaneous expenses.)
- ❑ **Improvement Projects:** (This line item should be established for next years budget to allow for necessary Improvement Project expenses.)

SEWER BUDGET 2003; Planning Docket (Year-end Summary)

REVENUES

- ❑ **Metered Revenues:** 95% of budget forecast. (Drop in customers billed is clearly reducing revenues)
- ❑ **Other Service Revenues:** 95% of budget forecast; initial budget set at 80% of 2002. (Drop in customers billed is clearly reducing revenues)
- ❑ **Availability Fees:** 82% of budget forecast. (Customers are still not paying their Availability Fees)
- ❑ **Revenue Total:** 95% of budget forecast. (Combination of customers not paying and moving away)

EXPENSES

- ❑ **720 Materials & Supplies:** 239% of budget; initial budget set at \$23,600. 4th Quarter expenses are normal and associated with this category. (This line item was increased for the 2004 budget to allow for additional Material & Supply expenses.)
- ❑ **731 Contracted Services-Eng.:** 238% of budget, initial budget set at \$5,000. 4th Quarter expenses are normal and associated with this category. (This line item was increased for next years budget to allow for additional Contracted Service expenses.)
- ❑ **736 Contracted Services-Other:** 239% of budget, initial budget set at \$14,300. 4th Quarter costs were associated with Greentree software purchase (down payment), payments, and associated computer networking costs. (This line item was increased for the 2004 budget to allow for additional Contracted Service expenses.)
- ❑ **750 Transportation:** 169% of budget, initial budget set at \$6,300. 4th Quarter expenses are normal and associated with this category. (This line item was increased for the 2004 budget to allow for additional Transportation expenses.)

- ❑ **758 Insurance – Worker’s Comp:** 132% of budget; initial budget set at \$2,300. (This line item was increased for the 2004 budget to allow for additional Worker’s Compensation Insurance expenses.)
- ❑ **775 Misc. Expense:** 178% of budget; initial budget set at \$10,000. 4th Quarter expenses are normal and associated with this category. (This line item was increased for the 2004 budget to allow for additional Miscellaneous expenses.)
- ❑ **1999 BAN/2003 SRF Loan:** 110% of budget; initially set at \$272,000. Increased interest rates for SRF refinancing and fees accrued due to legal/financial matters being prolonged by the 2002 rate appeal and resulting legal process.
- ❑ **Improvement Projects:** (This line item should be established for next years budget to allow for necessary Improvement Project expenses.)

PROFIT & LOSS

- ❑ **Lost Revenues:** As mentioned before, the lost revenues are directly related to an average loss of revenue for eighty-nine (89) customers per month. To better show the correlation between lost customers and lost revenues, Table 1 shows revenue loss as monthly and yearly totals based on an average customer’s consumption of 3,600 gallons/month.

Table 1: LOST REVENUES		
89 Customers Lost @ 3,600 gallons/month	MONTHLY	YEARLY
Water Revenues Lost	\$2,659	\$31,905
Sewer Revenues Lost	\$4,147	\$49,766

- ❑ **Water Utility:** The water utility’s “Planning Docket (Year-end Summary)” shows a \$22,502 profit at the end of 2003; this was accomplished by eliminating all but essential major capital purchases or facility improvements in the past six months. The water utility’s fairly stable revenue/expense pattern makes it easier to forecast, however, the 2004 Water Budget had to be extraordinarily *tightened* in an attempt to balance it. December was the first month that the “cash-operating” account dropped below its minimum requirement; although it won’t be the last as we pass through the slow winter months.
- ❑ **Sewer Utility:** The sewer utility’s “Planning Docket (Year-end Summary)” shows a \$19,015 loss at the end of 2003; this too was accomplished by eliminating all but essential major capital purchases or facility improvements in the past six months. The shortage of customers is having a very detrimental effect on metered revenues of the sewer utility. This revenue loss will have a cost-prohibitive effect on the sewer utility’s ability to adequately address problems throughout the collection system and treatment plant while meeting all of the existing financial obligations. The 2004 Sewer Budget was *stripped down* to the essentials simply to make it balance. The sewer utilities cash operating account has dropped below its minimum balance for the past three months and will continue to drop until April 2004 when the availability fees are due.

SUMMARY

In summary, the first and primary concern continues to be the impact that losing large numbers of customers is having on the utilities ability to generate sufficient revenues to meet ALL of its financial obligations; the second, Availability fees have an 18% shortfall in 2003, even with collection efforts focused on availability accounts that are generating revenue from prior years' charges; and third, unmetered water loss is at an all-time high average of 21% for 2003. Between unmetered water loss and old/inaccurate meters we are spending and losing more of our revenues than is acceptable by normal standards. However, to fix these problems we must invest in the infrastructure that is failing. Without funds available to do this the problems simply continue to get worse. A rate study should be completed within the next few months to address these issues and to prepare for the potential of a Jennings Water, Inc. rate increase as is being discussed by their Board.

Please review the "Planning Dockets (Year-end Summary)" for year end details and profit and loss amounts. Again, the utility board has much to think about and should discuss these financial matters with legal and financial council for planning financial solutions/goals, as well as with engineering consultants for planning of short/long-term improvement projects. Make no mistake about it, this is a *financial crisis* that must be addressed and corrected. The next few months should be used to plan our steps for addressing this crisis in order to avoid an ever worsening circumstance. I would urge the utility leaders and the community it serves to work together as this difficult problem is dealt with. I will continue to offer my services to the board, its consulting staff and the community it serves as we work our way through the crisis at hand.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Fish', with a long horizontal flourish extending to the right.

Jeffrey A. Fish
Utility Manager